



President's Fund Annual Report for 2010/11

The Department of Justice and Constitutional Development



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Department:
Justice and Constitutional Development
REPUBLIC OF SOUTH AFRICA

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PART 1

DEPARTMENT OF JUSTICE AND CONSTITUTIONAL DEVELOPMENT
PRESIDENT'S FUND

Report of the accounting officer



REPORT OF THE ACCOUNTING OFFICER ON THE ANNUAL FINANCIAL STATEMENTS OF THE PRESIDENT'S FUND FOR THE YEAR ENDED 31 MARCH 2011

GENERAL REVIEW

The President's Fund was established in terms of section 42 of the Promotion of National Unity and Reconciliation Act, 1995 (Act No 34 of 1995).

Parliament approved the following measures to victims on the recommendation of the State President and the subsequent consideration and recommendation of the *ad hoc* Joint Committee of both Houses of Parliament on the tabling of the final two volumes of the Truth and Reconciliation Commission (TRC) reports:

- A once-off individual grant of R30 000 to those individuals or survivors designated by the TRC.
- Systematic programmes to project academic and formal records of history, cultural and art forms, as well as erecting symbols and monuments that exalt the freedom struggle, including new geographic and place names.
- Medical and other forms of Social Assistance programmes to provide for medical benefits, education assistance and the provision of housing, as well as other social benefits to address the needs of victims identified by the TRC.
- Whole communities, other than individuals linked to the TRC process, which suffered and are still in distress; therefore, the need for such communities to be rehabilitated through various programmes initiated and supported by Government.

Subsection 42(2) of the Act states that *"there shall be paid from the fund all amounts payable to victims by way of reparation in terms of regulations made by the President"*.

To give effect to the payment of the once-off individual grant of R30 000, regulations were gazetted on 12 November 2003.

As at the end of the financial year under review, 15 962 of the 16 837 applications for reparation approved by the TRC have been paid the once-off individual grant. Payments to beneficiaries total R479 million. There are 875 outstanding beneficiaries who could not be traced via the database of a professional tracing agency. Details of the unpaid beneficiaries were supplied to the Department of Home Affairs and the Electoral Commission (IEC) to assist in providing the whereabouts of the unpaid beneficiaries. The Department of Home Affairs has confirmed that 500 of the unpaid beneficiaries are deceased, but was unable to provide information of contact persons who registered the deaths.

The Department of Justice and Constitutional Development is attempting to locate the rightful next of kin entitled to the benefit. The IEC was able to supply current addresses of 302 beneficiaries from its database. Letters have been written to the affected beneficiaries, requesting them to contact the President's Fund so that they can be correctly identified and their banking details obtained. The remaining 73 beneficiaries did not have correct identity numbers and could not be tracked by the agencies concerned.

Symbols and monuments

This aspect of the reparation measure is being addressed by the Department of Arts and Culture via the Freedom Park Trust, the South African Heritage Resources Agency and the provincial and local governments through their own programmes. No funds have been utilised from the President's Fund to date.

Medical and other forms of social assistance

Regulations on the exhumation of missing persons and reburial were gazetted on 7 May 2010. As at the date of this report, 37

families of persons who have been exhumed and reburied, and who applied for social assistance were paid a total amount of R629 000 (R17 000 per family in terms of the regulation).

Draft regulations relating to medical benefits, and basic and higher education assistance were published in *Government Gazette No 34279* (Notice No 282) on 11 May 2011 for public comment, with the closing date for comments being 8 June 2011.

The department is consulting with the National Department of Housing to finalise a memorandum of understanding regarding the provision of housing, which will form the basis for developing the regulations for the provision of housing.

Rehabilitation of communities

Approach planning sessions were held with the Independent Development Trust (IDT), which will perform this aspect of the reparation measure on behalf of the department. Needs assessment questionnaires have been developed and the department is in the process of finalising a memorandum of understanding with the IDT.

DONOR FUNDS

No significant donations were received, except for an amount of R287, being proceeds from the sale of books by the publishers on TRC matters.

CORPORATE GOVERNANCE ARRANGEMENTS

The fund utilises the services of the Department of Justice and Constitutional Development for its risk management approach, fraud prevention policies, effectiveness of internal audit and Audit Committee services. It also utilises the governance structures, systems and management processes of the department.

OTHER

We shall continue to utilise the funds available in the President's Fund, as well as any further contributions for the purposes for which the fund was established in terms of the founding legislation and by direction of regulations enacted by the State President.

My appreciation and thanks are accorded to the related departments, agencies and stakeholders, who have assisted in attaining the reparation goals of the President's Fund.



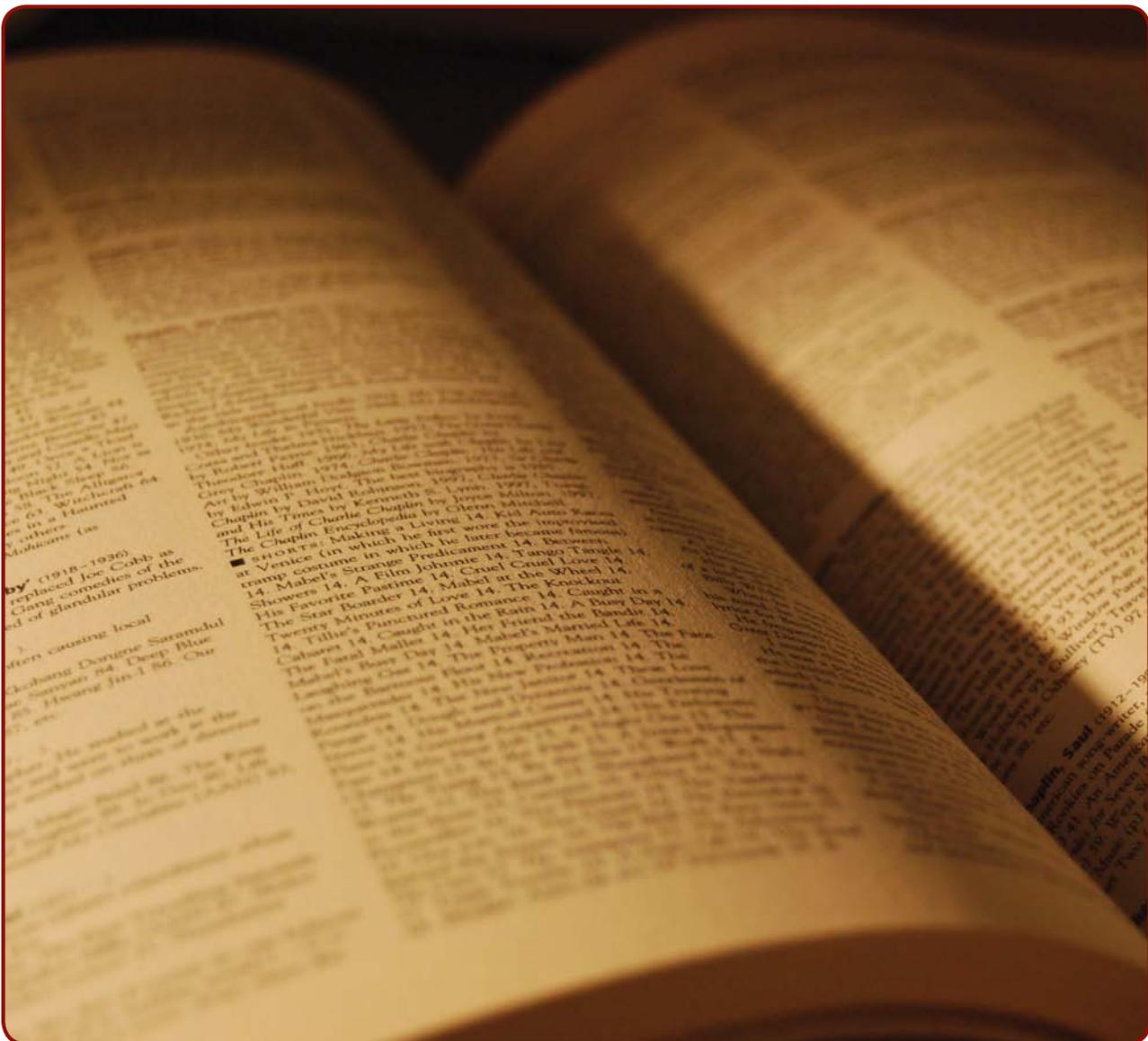
Ms Nonkululeko Sindane
Accounting Officer: President's Fund
 31 May 2011



PART 2

DEPARTMENT OF JUSTICE AND CONSTITUTIONAL DEVELOPMENT
PRESIDENT'S FUND

Report of the Audit Committee



REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2011.

AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Audit Committee consists of the members listed below and is required to meet at least four times per annum in accordance with its approved terms of reference. During the current year, eight meetings were held. These included special meetings held to address audit concerns and qualification matters in the Department of Justice and Constitutional Development.

Names of members	Number of meetings attended	Status
Mr Motsamai Karedi (Chairperson)	8	Reappointed 15 December 2009
Mr Cedric Boltman	8	Reappointed 15 December 2009
Ms Bajabulile Luthuli	7	Appointed 15 December 2009
Ms Matshego Ramagaga	4	Appointed 15 December 2009
Ms Zodwa Manase	3	Appointed 15 December 2009
Mr Wilson Ramabulana	7	Appointed 15 December 2009

RESPONSIBILITY OF THE AUDIT COMMITTEE

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirement of section 38(l)(a) of the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA) and Treasury Regulation 3.1.

THE EFFECTIVENESS OF INTERNAL CONTROL

There were no significant control weaknesses and risks reported to the Audit Committee and we are satisfied that key controls remained in place throughout the year. Where deficiencies in internal controls were identified, management demonstrated commitment in addressing them.

We took note of management's initiatives in tracing beneficiaries of the Truth and Reconciliation Commission (TRC), as well as the process on the finalisation of regulations relating to the allocation of funding for education, health and housing for the beneficiaries. However, we express concern on the slow progress, as the fund has been growing significantly over the years.

INTERNAL AUDIT

The department's Internal Audit Unit is responsible for auditing the President's Fund. The unit has discharged its responsibilities in accordance with the Internal Audit Plan.

AUDITOR-GENERAL SOUTH AFRICA

We have met with the Auditor-General South Africa to ensure that there are no unresolved issues.

The quality of in-year management and monthly/quarterly reports submitted in terms of the PFMA

Although there are areas of improvement, as highlighted by the department, we are satisfied with the content and quality of monthly and quarterly reports prepared and issued by the accounting officer during the year under review. However, we have noted the Auditor-General's concerns relating to the department's reporting on performance information in terms of the required auditing standards.

Management has undertaken to effect the recommended improvements, and the Audit Committee will continuously monitor progress in this regard.

Evaluation of financial statements

We have done the following:

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the Auditor-General of South Africa and the accounting officer.
- Reviewed the Auditor-General of South Africa's management report and management's response to it.
- Reviewed the department's compliance with legal and regulatory provisions.
- Reviewed significant adjustments resulting from the audit.

We concur and accept the conclusions of the Auditor-General of South Africa's report on the annual financial statements and are of the opinion that the audited annual financial statements should be accepted, read together with the report of the Auditor-General of South Africa.



MKaredi

Chairperson of the Audit Committee

29 July 2011



PART 3

DEPARTMENT OF JUSTICE AND CONSTITUTIONAL DEVELOPMENT
PRESIDENT'S FUND

Report of the Auditor-General of South Africa



REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE PRESIDENT'S FUND FOR THE YEAR ENDED 31 MARCH 2011

INTRODUCTION

1. I have audited the accompanying financial statements of the President's Fund, which comprise the statement of financial position as at 31 March 2011, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, as well as a summary of significant accounting policies, as set out on pages 16 to 25.

ACCOUNTING OFFICER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR-GENERAL'S RESPONSIBILITY

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No 25 of 2004) (PAA) and section 42(7) of the Promotion of National Unity and Reconciliation Act of South Africa, 1995 (Act No 34 of 1995), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and

General Notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the President's Fund as at 31 March 2011, and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and in the manner required by the PFMA.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

8. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on material non-compliance with laws and regulations applicable to the entity.

COMPLIANCE WITH LAWS AND REGULATIONS

9. There are no findings concerning material non-compliance with laws and regulations applicable to the fund.

INTERNAL CONTROL

10. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I have considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. There are no significant deficiencies in internal control that resulted in a qualification of the auditor's opinion on the financial statements and material non-compliance with laws and regulations.

Auditor-General

Pretoria

31 July 2011



AUDITOR - GENERAL
SOUTH AFRICA

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PART 4

DEPARTMENT OF JUSTICE AND CONSTITUTIONAL DEVELOPMENT
PRESIDENT'S FUND

Financial statements



STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2011

	Note	2011 R	2010 R
Revenue			
Non-exchange transactions – donations		287	823
No-exchange transactions – royalties		6 131	4 787
Investment revenue	3	66 813 011	72 734 646
		<u>66 819 429</u>	<u>72 740 256</u>
Less: Expenditure		1 372 376	1 105 158
Surplus for the year	4	<u>65 447 053</u>	<u>71 635 098</u>

STATEMENT OF FINANCIAL POSITION

as at 31 March 2011

	Note	2011 R	2010 R
ASSETS			
Non-current assets		1 037 414 761	973 102 942
Financial investments available-for-sale	6	1 037 414 761	973 102 942
Current assets		148 471	231 169
Cash and cash equivalents	8	148 471	231 169
Trade and other receivables – non-exchange transactions	5	0	0
Total assets		<u>1 037 563 232</u>	<u>973 334 111</u>
LIABILITIES			
Total liabilities		27 369 236	27 666 725
Trade and other payables – non-exchange transactions	7	27 369 236	27 666 725
CAPITAL AND RESERVES			
Total net assets		1 010 193 996	945 667 386
Accumulated surplus	9	1 010 193 996	944 746 943
Accumulated other comprehensive income	10	0	920 443
Total net assets and liabilities		<u>1 037 563 232</u>	<u>973 334 111</u>

STATEMENT OF CHANGES IN EQUITY

as at 31 March 2011

	Note	2011	2010
		R	R
Accumulated surplus			
Opening balance		944 746 943	873 119 345
Plus: Surplus for the year		65 447 053	71 635 098
		<u>1 010 193 996</u>	<u>944 754 443</u>
Less: Prior year error	14	0	7 500
Closing balance	9	<u>1 010 193 996</u>	<u>944 746 943</u>
Accumulated other comprehensive income			
Opening balance		920 443	316 569
Plus: Unrealised gain/loss for the year	6.1	0	603 874
Less: Revaluation decrease in investments	10	-920 443	0
Closing balance	10	<u>0</u>	<u>920 443</u>
Total net assets		<u>1 010 193 996</u>	<u>945 667 386</u>

CASH FLOW STATEMENT

as at 31 March 2011

	Note	2011	2010
		R	R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts on behalf of beneficiaries		-2 738 334	-2 204 706
Cash paid to beneficiaries and creditors		1 372 376	1 105 158
Cash generated from/(utilised in) operations	11	<u>-1 365 958</u>	<u>-1 099 548</u>
Investment income received		66 513 011	72 734 646
Net cash inflows/(outflows) from operating activities		<u>65 447 053</u>	<u>71 635 098</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Net cash flows from investment activities		-65 232 262	-76 178 853
Net investments *		<u>1 580 749</u>	<u>-6 444 207</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash flow from financing activities		-297 489	-1 182 647
Increase/(decrease) in beneficiary liability		<u>-297 489</u>	<u>-1 184 311</u>
Decrease/(increase) in accounts receivable		<u>0</u>	<u>1 664</u>
Net increase/(decrease) in cash and cash equivalents		<u>-82 698</u>	<u>-8 726 402</u>
Cash and cash equivalents at the beginning of the year		231 169	8 957 571
Cash and cash equivalents at the end of the year		<u>148 471</u>	<u>231 169</u>



ACCOUNTING POLICIES

for the year ended 31 March 2011

1. GENERAL INFORMATION

The President's Fund was established in terms of section 42 of the Promotion of National Unity and Reconciliation Act, 1995 (Act No 34 of 1995), and domiciled in the Republic of South Africa.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for available-for-sale investments that have been measured at fair value. The financial statements are presented in rand.

Statement of compliance

The financial statements of the President's Fund have been prepared in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), as required by the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA).

2.2 Summary of significant accounting policies

2.2.1 Revenue recognition

The President's Fund recognises revenue when the amount of revenue can be reliably measured. It is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the President's Fund's activities as described below.

(i) Grants received

Grants from the Department of Justice and Constitutional Development are accounted for in the period to which the allocations relate.

(ii) Donations received

Donations are accounted for on receipt.

(ii) Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

(iv) Interest income

Interest revenue is accrued on a time basis, by reference to the principal outstanding, and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2.2.2 Expenditure

(i) Reparations

Reparations are accrued on approval by the Committee on Reparation and Rehabilitation Commission.

(ii) Administration expenditure

Administration expenses do not form part of grants as stated in subparagraph 2.2.1. Disbursements in respect of administrative expenses are borne by the Department of Justice and Constitutional Development, except for bank charges and service provider fees that are borne by the fund itself.

(iii) Exhumation and reburials

Financial assistance provided to the relative of a missing person reported to the Truth and Reconciliation Commission (TRC) as a deceased victim, whose remains have been exhumed and handed to the family for reburial or symbolic burial of persons whose physical remains cannot be found.

2.2.3 Financial instruments

Initial recognition and subsequent measurement – continue date of recognition of financial instrument

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the marketplace are recognised on the date that the President's Fund commits to purchase or sell the asset.

Initial recognition of financial instrument

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets, not at fair value through profit or loss, of any directly attributable incremental cost of acquisition or issue.

i) Trade and other receivables

Trade and other receivables originated by the fund are stated at fair value less provision for doubtful debts.

ii) Trade and other payables

Trade and other payables incurred by the fund are stated at present liability.

iii) Cash and cash equivalents

Demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value are disclosed under another category of financial instrument, depending on their nature.

Cash and cash equivalents that do not have fixed and determined payments will be classified as available-for-sale financial assets.



Cash and cash equivalents and bank borrowings are recorded at face value.

Financial instruments – initial recognition and subsequent measurement

Available-for-sale financial investments

Available-for-sale financial investments are those that are designated as such or do not qualify to be classified at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments, investments in money markets and other debit instruments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity as *“accumulated other comprehensive income”*. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in *“other operating income”* or *“other operating expenses”*. Interest earned while holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned while holding available-for-sale financial investments are recognised in the income statement as *“other operating income”* when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in *“impairment losses on financial investments”* and removed from the available-for-sale reserve.

2.3 Contingent liabilities

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the President’s Fund. The fund classifies its contingent liability as people who were declared victims by the TRC and who have not applied for reparation. It is uncertain whether these people will apply for reparation. Contingent liabilities are included in the disclosure notes.

2.4 Cash flow statement

The cash flow statement is prepared according to the indirect method.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2011

	2011 R	2010 R
1. Investment revenue		
Interest received (available-for-sale investments) – Public Investment Corporation	66 813 011	72 734 646
Interest received (fixed and call deposits) – Standard Bank	0	0
	66 813 011	72 734 646
2. Surplus/(deficit) for the year		
Operating profit has been determined after taking into account the following income and expenses:		
Revenue	66 819 429	72 740 256
Non-exchange transactions – donations	287	823
Non-exchange transactions – royalties	6 131	4 787
Investment revenue – <i>See Note 1</i>	66 813 011	72 734 646
Less: Expenditure	1 372 376	1 105 158
Interim reparations	18 680	50 000
Management fees – Public Investment Corporation (<i>Prior year for two months only</i>)	580 748	532 803
Final reparations	150 000	510 000
Exhumation and reburials	612 000	0
Service provider – BDB Data Bureau	8 199	7 827
Bank charges	2 749	2 864
Provision for bad debts – <i>See Note 3</i>	0	1 664
Surplus/(deficit) for the year	65 447 053	71 635 098
3. Trade and other receivables – non-exchange transactions		
Reparation payments recoverable:	0	0
Accounts receivable	273 264	273 264
Less: Provision for bad debts	-273 264	-273 264
	0	0
4. Financial investments available-for-sale		
4.1 Public Investment Corporation		
Opening balance as originally stated	973 102 942	893 320 215
Cost	972 182 499	893 003 646
Unrealised profit/(loss)	920 443	316 569



	2011	2010
	R	R
Investment income received during the financial year	66 813 011	72 734 646
Additions during the year	0	8 957 010
Disposals during the year	-1 920 444	-1 980 000
Unrealised profit/(loss)	0	603 874
Management expenses	-580 748	-532 803
Closing balance	1 037 414 761	973 102 942
Fair value at acquisition date	1 037 414 761	972 182 499
Unrealised profit/(loss)	0	920 443

Unrealised profit/(loss) is the difference between "all-in market values" and the "clean book value" plus "market-value interest". A provision against "accumulated other comprehensive income" was made for these unrealised profits/(losses).

Public Investment Corporation investments		
Money market 0–3 months	427 820 625	422 146 400
Money market 3–6 months	381 209 504	272 404 553
Money market 6–9 months	0	25 849 931
Money market 9–12 months	157 893 707	162 103 631
Public Investment Corporation management fee correction	0	4 732 791
Public Investment Corporation interest received correction	0	203 107
Trading cash	70 490 924	85 662 529
	<u>1 037 414 760</u>	<u>973 102 942</u>
4.2 Total financial investments available-for-sale	<u>1 037 414 760</u>	<u>973 102 942</u>
5. Trade and other payables – non-exchange transactions		
Reparation payments approved	27 369 099	27 666 599
Accruals	137	126
	<u>27 369 236</u>	<u>27 666 725</u>
6. Cash and cash equivalents		
Standard Bank account	148 471	231 169
	<u>148 471</u>	<u>231 169</u>

The carrying amount of cash and cash equivalents approximates their fair value due to their short-term maturity.

	2011	2010
	R	R
7. Accumulated surplus/(deficit)		
Opening balance at the beginning of the year	944 746 943	873 119 345
Less: Prior year error – See Note 12	0	7 500
Restated opening balance at the beginning of the year	944 746 943	873 111 845
Surplus/(deficit) for the year	65 447 053	71 635 098
Balance at the end of the year	<u>1 010 193 996</u>	<u>944 746 943</u>
8. Accumulated other comprehensive income		
Opening balance at the beginning of the year	920 443	316 569
Unrealised profit/(loss) for the year	0	603 874
Revaluation increase/(decrease) in investments	-920 443	0
Balance at the end of the year	<u>0</u>	<u>920 443</u>
9. Cash generated from/(utilised in) operations		
Surplus/(deficit) before interest	65 447 053	71 635 098
Less: Investment income received	-66 813 011	-72 734 646
Net cash flows from operating activities	<u>-1 365 958</u>	<u>-1 099 548</u>
10. Related party transactions		
All administration costs for the President's Fund are paid by the Department of Justice and Constitutional Development.		
11. Contingent liabilities		
Victims identified by the TRC need to apply for reparation before they are recognised as creditors. Uncertainty exists as to how many victims may apply in the future. At 31 March 2011, the estimated amount was R77 142 500 in respect of 2 342 beneficiaries.		
12. Prior year error		
Prior year error due to underprovision of creditors for the 2009/10 financial year. Opening balance as at 1 April 2010		
Increase in creditors		<u>7 500</u>
Decrease in accumulated surplus		<u>7 500</u>



1. RISK ASSESSMENT**1.1 Introduction**

As a client of the Public Investment Corporation (PIC), the President's Fund specifies its desirable risk parameters in accordance with its own risk appetite. This risk appetite informs the formal investment mandate given to the PIC. The ultimate responsibility for investment risk management oversight lies with the PIC and not with the President's Fund.

1.2 Market risk

Market risk is the potential loss due to adverse movement in the market value of assets.

The entity's activities expose it primarily to the risk of fluctuations in interest rate risk.

Interest rate risk refers to the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Market risk exposures are measured using a sensitivity analysis. A sensitivity analysis shows how net surplus and/or net assets would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

Interest rate risk management

The President's Fund interest rate profile consists of money market accounts and bank balances that expose the entity to fair value interest rate risk and cash flow interest rate risk, and can be summarised as follows:

Financial assets

Bank balances linked to South African prime rate

Money market linked to South African prime rate

The management of the Money Market interest rate risk is done by the PIC.

1.3 Interest rate risk

This risk is the potential financial loss as a result of adverse movements in interest rates that affect the value of money market instruments. As a PIC client, the President's Fund is exposed to interest rate risk through investments in money market accounts.

Sensitivity to interest rate movements is measured by the duration of the fixed interest exposure. Such duration is dictated in the President's Fund client investment mandate to PIC, relative to the appropriate benchmark.

Furthermore, these investment mandates prescribe how the assets should be managed by PIC, in line with the President's Fund liquidity needs and its liability profile.

1.4 Credit risk

The President's Fund's investment portfolios are exposed to the potential for credit-related losses that can result due to an individual, counterparty or issuer being unable or unwilling to honour contractual obligations.

To mitigate this risk and minimise excessive credit exposure to one single counterparty, the President's Fund mandate to the PIC states that the PIC will only invest with local commercial banks or institutions that have a credit rating of at least "A" from one of the recognised domestic and/or international credit-rating agencies.

1.5 Liquidity risk

Liquidity risk arises when there are insufficient liquid assets available to enable the President's Fund to meet its obligations when due.

The President's Fund's current liquid asset holdings of less than three months' maturity amount to R507 million of the total portfolio, which ensures sufficient liquidity to pay out monies due to beneficiaries.

1.6 Concentration risk

Concentration risk is the risk of losses arising due to poor diversification within funds, which can result in undesirable risk exposures.

The President's Fund manages this risk through the PIC investment mandate, which dictates the level of concentration. Money market investments are spread across banks to reduce and diversify the client's concentration risk.

Acknowledgements

Our appreciation towards the loyal support and valuable contributions of the various stakeholders is hereby acknowledged.

The financial statements set out on pages 16 to 25 have been approved by the accounting officer.



Ms N Sindane
Accounting Officer
Department of Justice and Constitutional Development
31 May 2011





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P/Bag X81, Pretoria, 0001

Tel: (012) 315 1111